

Message Text

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C O N F I D E N T I A L JAKARTA 11123

LIMDIS

E.O. 11652: GDS

TAGS: ENRG,JA,ID

SUBJECT: INDONESIAN LNG

REF : TOKYO 11991

1. ON SEPTEMBER 15, WHILE DISCUSSING OTHER SUBJECTS WITH MINISTER OF STATE FOR COORDINATING THE ECONOMY, FINANCE AND INDUSTRIES WIDJOJO, I ASKED HIM TO COMMENT ON MEMORANDUM OF UNDERSTANDING MINISTER OF TRADE RADIUS PRAWIRO REPORTEDLY SIGNED WITH JAPAN ON LNG. I SAID I WAS UNCERTAIN ABOUT STATUS OF THE MEMORANDUM AND NEGOTIATIONS FOR THE LNG ARISING FROM IT AS THEY CONCERNED THE DIVISION OF SUPPLY BETWEEN JAPAN AND THE UNITED STATES. I SAID I UNDERSTOOD THE MEMORANDUM OF UNDERSTANDING HAD PROVIDED FOR GOVERNMENT-TO-GOVERNMENT CREDIT OF \$200 MILLION, COMMERCIAL CREDIT OF \$500 MILLION AND TOTAL SUPPLY OF LNG TO JAPAN. CONTRACT WHICH HAD JUST BEEN SIGNED BETWEEN PERTAMINA AND PACIFIC LIGHTING CALLED FOR SUPPLY OF APPROXIMATELY 4 MILLION TONS LNG ANNUALLY. I UNDERSTOOD THAT JAPANESE WERE HOPING TO GET SOMETHING LIKE 8 MILLION TONS ANNUALLY. GENERAL IBNU SUTOWO HAD TOLD ME THERE WERE ADEQUATE SUPPLIES OF GAS FOR BOTH

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MARKETS. BUT WHAT IF, I ASKED WIDJOJO, THERE WERE ONLY

8 MILLION TONS OF LNG PRODUCED ANNUALLY? WOULD THAT GO TO JAPAN? WOULD THE MEMORANDUM OF UNDERSTANDING BE BINDING IN THIS CASE?

2. WIDJOJO SAID QUESTION OF LNG WAS NEW AND SURROUNDED BY CONSIDERABLE CONFUSION BOTH IN JAPAN AND INDONESIA. RADIUS PRAWIRO HAD BEEN SENT TO JAPAN BY PRESIDENT SUHARTO WITHWRITTEN MESSAGE FROM SUHARTO TO PRIME MINISTER TANAKA. TANAKA HAD APPOINTED VICE MINISTER OF MITI AND BOTH REPRESENTATIVES HAD PLENIPOTENTIARY POWERS FOR THEIR GOVERNMENTS. MEMORANDUM OF UNDERSTANDING COVERED TRANSACTION IN WHICH INDONESIA WOULD SELL LNG TO JAPAN IN RETURN FOR SOFT LOANS FOR FINANCING LNG FACILITIES. IT REPRESENTED FIRST STAGE OF AGREEMENT DETAILS OF WHICH STILL IN PROCESS OF NEGOTIATIONS. WIDJOJO SAID HE DID NOT THINK THERE WOULD BE PROBLEM WITH INADEQUATE SUPPLY OF LNG. HE SAID THERE WAS SOME PROBLEM OF PRIVATE COMPANIES IN JAPAN COMPETING FOR LNG BUT IT WAS UP TO GOJ TO SORT THIS OUT. BASIC AGREEMENT ON LNG FOR JAPAN WOULD BE BETWEEN THE TWO GOVERNMENTS AND RADIUS PRAWIRO WOULD BE THE NEGOTIATOR. PERTAMINA AND WHATEVER COMPANIES ARE DESIGNATED BY THE GOJ WOULD WORK OUT THE DETAILS.

3. WHEN I PRESSED WIDJOJO ON WHO WOULD GET LNG IN THE EVENT OF A SHORTAGE, WIDJOJO SAID INDONESIAN GOVERNMENT WOULD DECIDE. HE SAID IT WAS GOVERNMENT POLICY TO SELL LNG TO THE TWO MARKETS.

4. COMMENT: I HOPE TO SEE RADIUS PRAWIRO IN NEXT FEW DAYS TO GET HIS COMMENTS ON MEMORANDUM OF UNDERSTANDING AND HIS INTERPRETATION AND PLANS FOR FURTHER NEGOTIATIONS. TECHNICALLY, OF COURSE, PERTAMINA'S ACTIONS ON MAJOR CONTRACTS, LOANS, ETC., HAVE TO BE APPROVED BY BOARD OF COMMISSIONERS. IF ISSUE IS IMPORTANT, BOARD OF COMMISSIONERS MAKES RECOMMENDATIONS TO PRESIDENT AND PRESIDENT SUHARTO DECIDES. IN PRACTICE, HOWEVER, THUS FAR, PERTAMINA PRESIDENT-DIRECTOR IBNU SUTOWO HAS FOR THE MOST PART ACTED INDEPENDENTLY AND BEEN ABLE TO COUNT ON BOARD OF COMMISSIONERS' APPROVAL, PERHAPS PRINCIPALLY BECAUSE HE HAS BEEN ABLE TO COUNT ON SUPPORT FROM PRESIDENT SUHARTO.

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THERE IS, HOWEVER, SUBTLE UNDERCURRENT REPRESENTING ATTEMPT BY WIDJOJO, MINISTER OF FINANCE WARDHANA, MINISTER OF MINING SADLI AND OTHERS AMONG TECHNOCRATS TO ASSERT MORE GOVERNMENT CONTROL OVER PERTAMINA. I MENTION THIS BECAUSE PACIFIC LIGHTING'S CONTRACT MAY REQUIRE FORMAL BOARD OF COMMISSIONERS' APPROVAL. GIVEN PRESENT BALANCE OF POWERS AND INTERNAL GOI RELATIONSHIPS, I WOULD NOT ANTICIPATE THAT THIS WOULD BE A PROBLEM, HOW-

EVER.

5. FURTHER COMMENT: I WOULD SEE NO PROBLEM WITH PACIFIC
LIGHTING REPRESENTATIVES LOOKING INTO JAPANESE PLANS AND
INTENTIONS REGARDING PURCHASE OF INDONESIAN LNG BUT I
WOULD AGAIN CAUTION THAT WE OUGHT TO AVOID GIVING
INDONESIANS IMPRESSION THAT ON LNG WE AND JAPAN ARE
GANGING UP AGAINST THEM.
GALBRAITH

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